

COMMISSION AGENDA

Item No: 4A

Meeting: 07/18/19

DATE: July 18, 2019

TO: Port Commission

FROM: Eric Johnson, Executive Director
Sponsor: Erin Galeno, Chief Financial Officer
Project Manager: David Morrison, Treasurer

SUBJECT: Consider four Resolutions authorizing the issuance of senior-lien Revenue Refunding Bonds and refunding subordinate-lien Revenue Refunding Bonds; and amending two existing resolutions to allow the bonds to be outstanding in multiple interest rate modes simultaneously.

A. ACTIONS REQUESTED

The following resolutions do not authorize the issuance of new debt. All actions are refunding of existing debt or modifications to existing resolutions of existing debt.

Adopt Resolution 2019-07-PT authorizing the issuance and sale of revenue refunding bonds of the Port in the aggregate principal amount of not to exceed \$41,630,000, for the purpose of refunding certain outstanding obligations of the port and funding the common reserve requirement; setting forth certain bond terms and covenants; and delegating certain authority in connection with the sale.

Adopt Resolution 2019-08-PT authorizing the issuance and sale of subordinate lien revenue refunding bonds in an aggregate principal amount not to exceed \$90,000,000, for the purpose of refunding certain outstanding bonds of the Port and paying costs of issuance, providing for alternative interest rate modes and methods of determining the dates, forms, terms, maturities, and interest rates of such bonds; authorizing the execution and delivery of credit and liquidity facilities relating to said bonds; authorizing the execution, delivery and performance of remarketing agreements relating to said bonds; authorizing the initial sale of the bonds to [NAME OF UNDERWRITER]; and making certain other findings, covenants and agreements with respect thereto.

Adopt Amended and Restated Resolution 2019-09-PT, amending and restating Resolution No. 2011-01, originally approved as Resolution No. 2008-04 on February 21, 2008 and initially amended and restated by Resolution No. 2011-01 on April 7, 2011, and most recently amended and restated by Resolution No. 2014-04, on April 17, 2014, which resolution authorized the issuance and sale of subordinate lien revenue refunding bonds in an aggregate principal amount not to exceed \$120,000,000, for the purpose of refunding certain outstanding senior and subordinate lien revenue bonds of the Port.

Adopt Amended and Restated Resolution 2019-10-PT, amending and restating Resolution No. 2008-09, originally approved on July 2, 2008, as amended and restated by Resolution Nos. 2009 09 2012-05 and 2015-02; which resolution authorized the issuance and sale of subordinate lien

revenue bonds in an aggregate principal amount not to exceed \$133,000,000, for the purpose of financing or refinancing the cost of acquiring, improving and equipping Port capital facilities.

B. BACKGROUND

- Resolution 2008-04 authorized issuance and sale of subordinate lien revenue refunding bonds of \$117,210,000 par value of AMT bonds. The bonds were issued in March 2008 and are named the Subordinate-lien Revenue Refunding Bonds, Series 2008 (AMT). Resolution 2011-01 amended and restated the existing resolution to accommodate a banks direct purchase of the bonds, and in April 2011 the bonds were purchased by Wells Fargo for an initial 3-year term. The direct purchase has since been renewed and the bonds are still currently held by Wells Fargo.
- Resolution 2008-09 authorized issuance and sale of subordinate lien revenue refunding bonds of \$133,000,000 par value of Non-AMT bonds. The bonds were issued in July 2009 and are named the Subordinate-lien Revenue Refunding Bonds, Series 2008B (NAMT). Resolution 2012-05 amended and restated the existing resolution to accommodate a banks direct purchase of the bonds, and in May 2012 the bonds were purchased by Wells Fargo for an initial 3-year term. The direct purchase has since been renewed and the bonds are still currently held by Wells Fargo.
- The existing resolutions for the 2008 and 2008B subordinate lien revenue refunding bonds allow flexibility in the “mode” in which interest expense is calculated for the bonds. Examples of modes include “Index Interest Rate” mode where the rate is set at a percentage of an industry interest rate calculated on a periodic basis and “Daily”, or “weekly” mode where the interest is set for a period of time based on an industry standard. Additionally, the bonds can be publicly traded or held by one customer such as a bank (AKA Direct Purchase).
- Resolution 2014-07 authorized issuance and sale of subordinate lien revenue refunding bonds of \$92,635,000 par value of NAMT bonds and allowed for conversion of these bonds to AMT in October 2015. The bonds were issued in June 2014 and are named the Subordinate-lien Revenue Refunding Bonds, Series 2014A (AMT). These bonds are currently held in direct purchase by Bank of America. The existing resolution is less flexible than the 2008 and 2008B Subordinate-lien Revenue Refunding Bonds as it only allows the Index Interest Rate mode.
- The Port currently has \$269,490,000 of subordinate lien bonds outstanding, all currently in the Index Interest Rate model and all held in Direct Purchase by banks. Of this amount, \$227,587,500 is “hedged” by four interest rate swap contracts. The remaining portion of \$41,902,500 is “unhedged.”
- Due to changes in the US Tax code in 2018, the tax advantage to the banks to “own” the 2008, 2008B, and 2014A bonds became less valuable.
- The 2008B and 2014A bond agreements with Wells Fargo and Bank of America were set to expire in mid-2018, shortly after the changes to the US Tax code. To allow the financial market to reset and reestablish normality after the tax code changes, staff agreed to a one-year extension to the bank agreements even though rates were higher than previous agreements due to the tax code changes.
- Although the 2008 bonds were not set to expire until 2020, provisions in that existing agreement triggered by changes in the tax code resulted in even higher interest rates than the modifications to the 2008B and 2014A. Staff modified the 2008 agreement to be consistent with the 2008B and 2014A bonds.

- The financial market has settled from the change in the tax code and any new agreements in the Index Interest Rate mode moving forward will result in the Port having to continue to pay more interest than compared to moving the bonds into publicly traded bonds.
- To reduce variable interest rate risk, staff proposes refunding portions of the 2014A Subordinate Lien Revenue Refunding bonds as fixed rate Revenue Refunding Bonds at the senior level due to very low fixed interest rate market conditions.

C. AUTHORIZATION

- Approve resolution 2019-07-PT that will authorize staff to execute a public offering for the 2019 Revenue Refunding Bonds through a negotiated or competitive process when timing and conditions will result in reduced interest rate risk. These will be fixed rate bonds at the senior level.
- Approve resolution 2019-08-PT that revises the 2014A Subordinate Lien Bonds to allow more than one mode. These bonds will transition from bank owned Index Interest Rate mode bonds to publicly traded Weekly mode variable rate bonds.
- Approve resolutions 2019-09-PT and 2019-10-PT to allow these bonds to be in multiple modes at the same time. This allows staff to pursue risk reduction and interest rate reduction opportunities in the future while maintaining sufficient subordinate lien bonds to match the outstanding swaps. These bonds will transition from bank owned Index Interest Rate mode bonds to publicly traded Weekly mode variable rate bonds.

D. ESTIMATED TIMEFRAME/PROJECT SCHEDULE

Finalize Sub Lien VRDO Offering Memos	07/29/2019
Finalize Senior Lien Preliminary Official Statement	07/30/2019
Senior Lien Fixed Rate Bond Pricing	08/8/2019
Senior Lien Fixed Rate Bond Closing	08/22/2019
Sub Lien VRDO LOC Effective Date	08/26/2019

E. FINANCIAL SUMMARY

Commission is approving a refunding of subordinate lien revenue bonds to senior lien revenue bonds that will move from Index Interest Rate mode (variable) to fixed rate bonds to reduce risk and potentially save interest expense. Commission is also approving modifications to one subordinate lien revenue bond resolution to allow multiple modes and approving modifications to all three of the resolutions to allow multiple modes at the same time. The subordinate lien bonds will move from Index Interest Rate mode owned by banks to publicly traded Weekly mode bonds.

These actions are being taken to reduce risk and/or reduce interest expense. Savings realized by the Port will depend on short term variable interest rates over the life of the bonds.

A risk associated with all refunding's is that rates could go lower in the future, resulting in more savings than if staff execute the refunding now. Alternatively, rates could increase and the Port

could forgo savings that will be captured now.

F. NEXT STEPS

Adopt Resolutions providing for the issuance and sale of senior and subordinate lien revenue refunding bonds of the Port, and authorizing bonds of the subordinate lien to be outstanding in multiple interest rate modes simultaneously; setting forth certain bond terms and covenants; and delegating authority to approve final terms and conditions and the sale of the bonds.

Staff will report back to Commission the final terms of the refunding upon completion of the transaction.

G. ATTACHMENTS TO THIS REQUEST

A copy of draft Resolutions 2019-07-PT, 2019-08-PT, 2019-09-PT and 2019-10-PT were provided to Commissioners in the package sent out on July 1, 2019. The final versions of these resolutions will be available on Friday, July 12th.